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SUBJECT: BRAZIL: MORE BUZZING AT BNDES

REF: Brasilia 3701

1. Brazil's National Bank for Economic and Social Development (BNDES) remains in media focus, with totally divergent forecasts as to the fate of its leftist Lula-appointed President, Carlos Lessa. Lessa last week flaunted his lack of remorse over the maverick actions and comments which had raised a few market jitters about a possible return to GoB intervention in the economy and reportedly earned him a Lula reprimand (Reftel). BNDES Vice-President Darc da Costa subsequently joined his boss in aiming public verbal darts in particular at Finance Ministry Secretary Marcos Lisboa and Treasury chief Joachim Levi.

2. In recent front-page articles, financial daily 'Valor Economico' treated Lessa's imminent ouster as a certainty; 'Estado de Sao Paulo' asserted that Lessa's November 28 meeting with Finance Minister Palocci had mended fences and made his position "far stronger than a day earlier"; and 'Folha de Sao Paulo' split the difference by warning that the Palocci meeting would help but not permanently shore up Lessa's position. One guess has Planning Minister Guido Mantega conveniently shifting to BNDES, making available a ministerial portfolio for political allocation outside the PT, perhaps to current Minister of National Integration Ciro Gomes, as part of Lula's first cabinet overhaul.

3. Some commentators have excitedly depicted Lessa's personal fate at BNDES as a proxy for putative intra-GoB policy battles. As this notion would have it, Lessa is catalyzing the protest of the GoB's so-called "developmentalists" and traditional PT ideologues against the fiscal hard-line incarnated by Finance Minister Palocci. Even those advancing this idea offer no basis for it other than speculation and Lessa's known attitudes. Nor do they cite any conspicuous GoB figures as being in Lessa's corner over the issue, aside from one journalist's mention -- offered with zero evidence -- of Planning Minister Mantega and Senator Aloizio Mercadante.

4. Separately, there are new reports of progress concerning GoB steps to give BNDES extra resources. The long-cited goal has been to increase BNDES's annual lending capacity from the current 35 billion Reals (USD 1 = 2.95 Reals) to 47 billion in 2004. The net new capitalization being spoken of hovers between five and ten billion Reals. Various specialists claim that BNDES, under Basle capital-ratio rules, would be unable to continue major new lending in 2004 absent a capital influx. The decision in principle to provide such an influx seems unopposed in the GoB. From details of financial-media accounts, however, it is plain that the Central Bank is intent on keeping the strictest control over the source and mechanism for providing it, as well as over guidelines for its future use.

5. COMMENT. We judge the hubbub over recent BNDES events to be much overblown. Brazil's "developmentalist"/fiscal hard-liner split itself is just a predictable and natural re-run of an old film. An identical fault-line marked the early years of Cardoso's first administration. The developmentalists then also included the BNDES head, Luiz Carlos Mendonca de Barros, and were spearheaded by Planning Minister Jose Serra -- who was utterly eclipsed by Finance Minister Malan. Former-academic Lessa is an order-of-magnitude less formidable political actor than was Serra then, and, ironically, there seem fewer ministers in Lula's PT government inclined to identify with Lessa's dogmatic line than there were in FHC's neo-liberal Cabinet ready to oppose Malan. Brazil's latest disappointing GDP growth statistics, as well as the GoB's rising rhetoric about launching an industrial policy in 2004, may yet give Lessa an extra lease of GoB life as a Lula gesture to the social importance of growth and to the PT's old-school wing which has no other high-profile representation in the GoB. Either way, we see him as zero threat to Palocci's position or policies.

6. This cable cleared with CGs Rio and Sao Paulo.

HRINAK